

# Conservation of Ontario's High-rise Rental Apartment Stock, 1984

CONSERVATION OF ONTARIO'S HIGH-RISE  
RENTAL APARTMENT STOCK

A Discussion Paper  
prepared by  
Clayton Research Associates Limited

on behalf of  
The Ontario Ministry of Municipal Affairs & Housing  
Housing Renovation & Energy Conservation Unit

based upon

Volume 10: Study of Residential Intensification  
and Rental Housing Conservation  
"Future Conservation Requirements and  
Costs for High-Rise Apartments and the  
Possible Impact on Rents and Tenants"  
(prepared by Klein and Sears, Architects  
and Clayton Research Associates, 1983)

## NOTE:

Since this is a discussion paper, any statements or opinions expressed herein are those of the writers or of person quoted and, unless otherwise noted, are not necessarily endorsed by the Ministry of Municipal Affairs and Housing or Government of Ontario.

May, 1984

## EXECUTIVE SUMMARY

The condition of Ontario's high-rise rental apartment stock and the costs and impacts of conserving that stock for future use were some of the subjects covered in a major consultant report prepared for the Ministry of Municipal Affairs and Housing and the Association of Municipalities of Ontario. Entitled the Study of Residential Intensification and Rental Housing Conservation, the reports were released in August, 1983; Volume 10 of the report was devoted to the high-rise issues.

This discussion paper was prepared as a follow-up to that report. It provides a synopsis and elaboration of some of the consultants' findings as they relate specifically to the conservation of Ontario's high-rise rental apartment stock. It is intended that this paper be circulated to key groups affected by these important issues in order to heighten awareness among the building industry, governments and the public about the situation in Ontario's high-rise rental apartment stock.

The major findings of the study with respect of the conservation of the high-rise rental apartment stock in Ontario are presented below:

### Perspective on the High-Rise Rental Apartment Stock

- High-rise apartment buildings are defined as structures of five or more stories. Buildings of this type comprise about 40 percent of the total occupied rental stock in the province. Most of these buildings were constructed in the past two decades and 80 percent of them are located in the Toronto, Hamilton and Ottawa areas.
- The majority of the high-rise rental apartment stock is owned by corporate landlords; however, from rough estimates, it appears that over half the stock is in the hands of companies which own only a few buildings. Approximately one-quarter of the stock appears to be in the hands of landlords which own more than five buildings.
- The tenants of the high-rise rental apartment stock represent a broad cross-section of all types and ages of households; however, the vast majority of tenants tend either to be non-family (mostly one-person) households or couples without children.
- The majority of tenants do not currently have an affordability problem. Over 75 percent of unsubsidized tenants pay less than 30 percent of their income on rent.

### Conservation Needs in the High-Rise Rental Apartment Stock

- As the term is used in this paper, conservation of the high-rise rental apartment stock refers to actions necessary to prevent the premature decay or loss of buildings, the replacement of major systems and the modernization of elements of the

building structure and components as required as a result of the aging process. These measures are analagous to preventive maintenance actions on an automobile which, if not undertaken, may lead to more costly repair measures later or a significant shortening of its expected life.

- All high-rise buildings can be expected to require conservation work over the next two decades, just as all automobiles require similar actions to ensure a long life. However, in some buildings, the necessary conservation work is more extensive due to other factors such as possible inadequate initial design and construction, deficient inspection and review procedures on the part of municipalities or lenders, or a lack of understanding on the part of building maintenance personnel and administrators regarding the conservation needs of high-rise buildings.
- Examples of the types of conservation needs which have been identified in Ontario's high-rise rental apartment stock over the next two decades include:
  - Weather penetration of roofs, walls and windows;
  - Failing underground parking structures;
  - Obsolete or worn out electrical, heating, plumbing and ventilation systems; and
  - Upgrading of fire alarm and other safety systems.
- The costs of this conservation work will be extensive. Estimates of necessary conservation work for five case study buildings indicate that costs (in 1982 dollars) could range between \$3,600 and \$9,500 per high-rise apartment unit over the next two decades.

#### The Impact of Conservation Costs on Landlords

- Despite the fact that costs for necessary conservation work can be passed on to tenants through rent review in the form of higher rents, many private landlords interviewed during the course of the study indicated that the process of rent review was constraining them from undertaking necessary conservation work. There is, however, no visible evidence that rent review is affecting the useful life of the rental stock at this time or that any conservation needs identified in the study can be directly attributed to the rent review process. The conservation needs occur in all buildings whether covered by rent review or not.
- While many private landlords express a distaste for the rent review process, it appears likely most will undertake required conservation work rather than jeopardize the revenue-producing life of the building. Where necessary, these landlords can be expected to utilize the provisions of the rent review system to pass the increased costs on to tenants through rent increases.

- Investigation is required to determine the impact of rent review guidelines on maintenance and preventive maintenance practices. General comments from property standards officers, tenants and some landlords indicate that extraordinary and preventive maintenance activities appear generally to have been streamlined so that annual operating costs could be maintained within the rent review guideline. For example, roof maintenance procedures may be undertaken only when necessary rather than on a regular annual basis. Consequently, a significant majority of landlords may not apply for rent review since their cost increases are maintained within the allowable ceiling. However, the streamlining of certain maintenance practices could accelerate the need for conservation measures.

#### The Impact of Conservation Costs on Tenants

- The rent increases which would be necessary to offset the estimated conservation costs in the two private case study buildings used as examples in this study are estimated at 8-16 percent over the 1982-1987 period. This is over and above the normal expected annual increases in rents due to increased operating costs over this period.
- The majority of tenants would not face any major difficulty coping with rent increases of this magnitude over the five-year period. However, there would be some tenants for whom the increased rents would result in rent/income ratios in excess of 30 percent, and others, already paying in excess of 30 percent of income in rent, for whom existing affordability problems would be worsened.
- The ability of tenants to afford rent increases due to projected conservation costs over the post-1987 period is difficult to assess since it will depend on trends in rents and incomes in the intervening years. It seems unlikely, however, that rent increases related to conservation costs will seriously disadvantage the majority of tenants.

#### Government Options in Dealing with Conservation

- Government financial incentives to promote conservation do not appear necessary. Providing landlords are aware of the conservation needs and their ramifications for the future revenue-producing life of the building, it seems likely that most will undertake the required conservation work.
- In terms of minimizing the effect of conservation costs on tenant affordability, the Government would appear to have three options:
  - Provide subsidies to landlords - this would be extremely costly, administratively complex and very inefficient in

terms of targetting assistance to those in need;

- Restrict allowable rent increases to the rate of inflation or income growth - inflation or average income growth have no bearing on the need to undertake conservation work, such restrictions could discourage landlords from undertaking necessary conservation work; or
  - Expand the volume of assisted housing - ideally, such an initiative would not be restricted to tenants who were disadvantaged by rent increases due to conservation costs, but would be part of a comprehensive program targetted at all needy tenants. While this option appears the most sensible, it would be expensive. It would require a greater commitment of funds than governments have been willing or able to devote to the affordability problem in the past, plus a recognition that the current target groups for government housing assistance do not cover all needy groups.
- The conservation costs for government-owned high-rise rental apartment buildings will put demands on government resources that will not be recouped in rents. The study found that conservation actions were underway on the public sector case study buildings so there is no doubt housing authorities are budgeting for such outlays; however, future needs will likely be higher than today's.
  - Some provision for subsidizing non-government assisted housing groups (such as non-profit groups) in dealing with conservation costs may be necessary if the rents in these buildings are to remain affordable.
  - A contributing factor behind any lack of action on some of the conservation needs in some private high-rise rental apartment buildings appears to be a lack of knowledge on the part of the personnel charged with the responsibility for maintenance and conservation work. A provincially-sponsored building conservation training program could assist in educating these officials in diagnosing the problems and understanding the ramifications of lack of attention to conservation needs.

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION .....	1
BACKGROUND ON CONSERVATION AND ONTARIO'S HIGH-RISE RENTAL APARTMENT STOCK .....	3
A Perspective on Ontario's High-Rise Rental Apartment Stock .....	3
What is Conservation? .....	6
Why Have Conservation Needs Arisen? .....	8
Why Worry About Conservation? .....	10
CONSERVATION NEEDS IN THE HIGH-RISE RENTAL APARTMENT STOCK .....	12
What Conservation Needs Have Been Identified? .....	12
Weather Protection .....	12
Structural Integrity .....	13
Building Systems .....	13
Parking Structures .....	14
Occupant Safety .....	15
Movement Systems .....	15
Equipment and Fittings .....	15
What Will Be the Cost of Undertaking the Conservation Actions? .....	15
What Will Be the Impact of These Conservation Costs on Rents? .....	17
AVAILABLE OPTIONS .....	21
Will Landlords Undertake the Necessary Conservation Work? .....	21
Can Tenants Afford the Resulting Rent Increases? ..	22
What are the Options for Tenants and Government in Dealing with the Impact of Conservation Costs on Affordability? .....	26
Other Issues .....	28

## INTRODUCTION

The condition of the existing high-rise rental apartment stock and the costs and impacts of conserving that stock for future use have been the subjects of widespread public debate recently. The impetus for this debate was the release in August, 1983 of the eleven-volume consultant report Study of Residential Intensification and Rental Housing Conservation prepared for the Ministry of Municipal Affairs and Housing and the Association of Municipalities of Ontario. Volume 10 of the report dealt with a number of issues related to the conservation of Ontario's high-rise rental apartment stock:

- The conservation needs which have arisen in high-rise rental apartment buildings;
- The reasons why these conservation needs have arisen;
- The costs associated with the work necessary to conserve a sample of high-rise rental apartment buildings over the next two decades;
- The rent increases that would ensue assuming that the conservation costs are reflected in rent increases;
- The effect of these rent increases on tenants; and
- The options which are available to governments to ensure that the pass-through of conservation costs into rent increases does not adversely affect tenant affordability.

The main authors of Volume 10 of the consultant study were Mr. Jack Klein of Klein and Sears, Architects and Mr. Greg Lampert of Clayton Research Associates.

This discussion paper was prepared as a follow-up to that report. It provides a synopsis and elaboration of some of the consultants' findings as they relate specifically to the conservation of Ontario's high-rise rental apartment stock. Most of the conservation-related issues presented in the larger report are dealt with in this paper though some additions and alterations were considered necessary. It is intended to circulate this discussion paper to key groups affected by these important issues in order to heighten awareness among the building industry, governments and the public about the conservation of Ontario's existing high-rise rental apartment stock.

The discussion paper is structured into three major sections which seek to answer a series of basic questions relating to the conservation of Ontario's existing high-rise rental apartment stock:

- Background on Conservation and Ontario's High-Rise Rental Apartment Stock - What are the characteristics of Ontario's high-rise rental apartment stock and its tenants? What is conservation, how does it relate to the province's high-rise rental apartment stock and why should we be concerned about it?
- Conservation Needs in the High-Rise Rental Apartment Stock - What sorts of conservation needs have been identified in Ontario's high-rise rental apartment stock and what are the costs and consequences for rents of undertaking the necessary work?
- Available Options - What options are available to landlords, tenants and government in dealing with the conservation of the existing high-rise rental apartment stock? Would tenants be able to afford the rent increases if the costs were passed through and how can affordability problems faced by tenants be minimized?

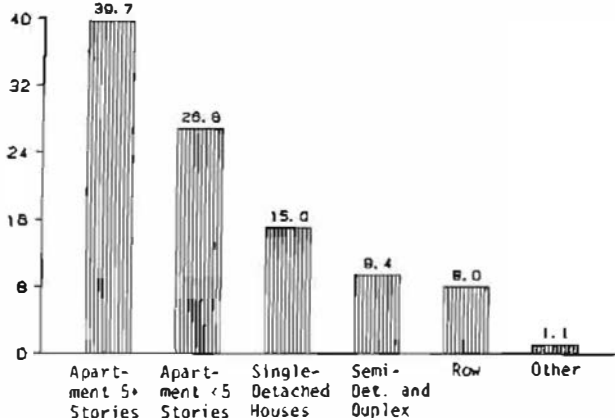
For a further elaboration of some of the themes presented in this discussion paper, see The Impact of Rent Review on Rental Housing in Ontario: A Staff Research Paper prepared by the Ministry of Municipal Affairs and Housing (1982).



## BACKGROUND ON CONSERVATION AND ONTARIO'S HIGH-RISE RENTAL APARTMENT STOCK

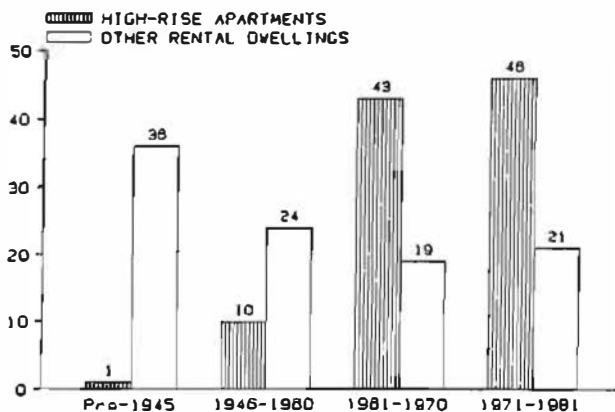
### A PERSPECTIVE ON ONTARIO'S HIGH-RISE RENTAL APARTMENT STOCK

OCCUPIED RENTAL STOCK BY DWELLING TYPE  
ONTARIO, 1981, PERCENT



Source: 1981 Census of Canada.

OCCUPIED RENTAL STOCK BY YEAR BUILT  
ONTARIO, 1981, PERCENT

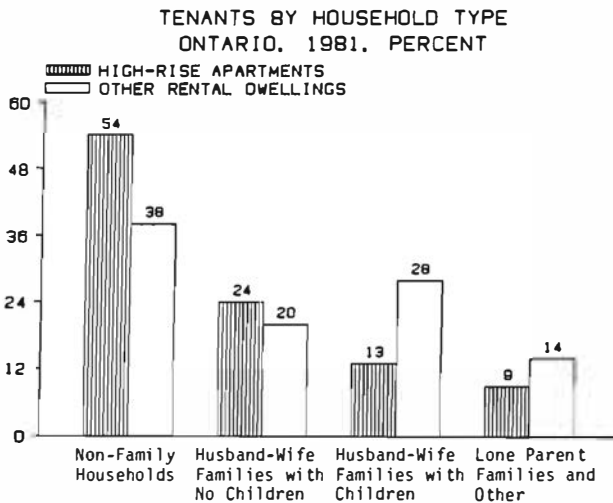


Source: 1981 Census of Canada.

Ontario's high-rise rental apartment stock contained 434,300 occupied units in 1981 — approximately 40 percent of the total stock of rental housing units in the province and 15 percent of the total dwelling stock. They are a big city phenomenon: only 3,000 high-rise rental units are in centres of less than 10,000 persons and almost 270,000 units (more than 60 percent of all high-rise rental apartments in the province) are located in the Toronto Census Metropolitan Area (CMA).<sup>\*</sup> Together, the three largest Ontario CMAs (Toronto, Hamilton and Ottawa) comprise over 80 percent of the high-rise rental apartment stock in the province.

Compared to the overall stock, most of these buildings are of relatively recent vintage. Only 11 percent of Ontario's high-rise rental stock in 1981 was built before 1961, and 46 percent was built in the 1971-1981 decade. High-rise apartments are a comparatively new form of housing construction — in a sense, a new technology.

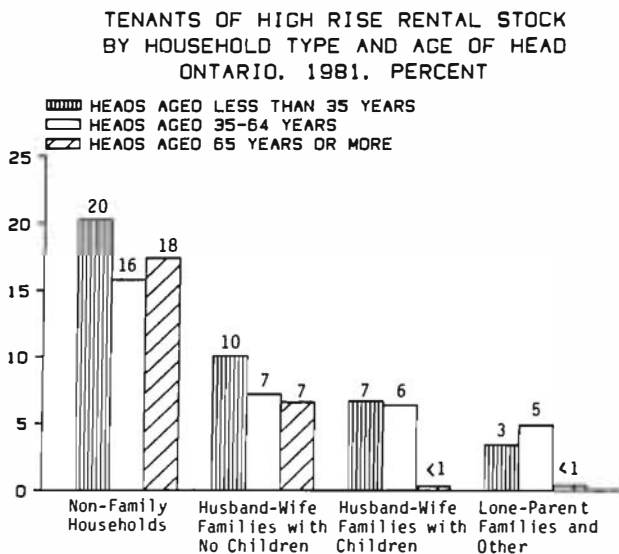
<sup>\*</sup> The Toronto Census Metropolitan Area refers to the main commuter-shed surrounding Metropolitan Toronto. It is comprised of the area stretching from Oakville on the west to Newmarket on the north and Ajax on the east. The Ottawa and Hamilton CMAs cover similar areas surrounding their urbanized cores.



Source: 1981 Census of Canada.

The high-rise rental apartment stock houses a wide variety of tenants but single people and couples are the predominant tenant groups. Over three-quarters of all tenants in the province's high-rise rental apartment stock are either non-family households or couples without children; this compares to 58 percent in all other types of rental dwellings.

Only 22 percent of the high-rise rental apartment stock is occupied by families with children. This is a much smaller proportion than for the non-high-rise rental stock where over 40 percent of the stock is occupied by families of one type or another with children.



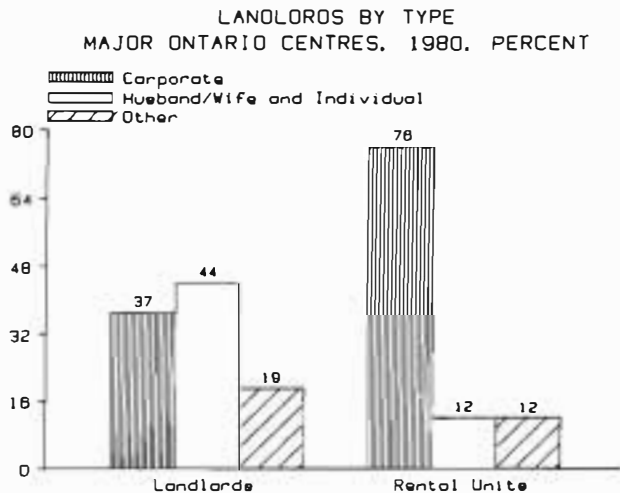
Source: 1981 Census of Canada.

One-quarter of the high-rise rental apartment stock is occupied by households headed by persons aged 65 years or more; the majority of these are non-family households, mostly single people.

Forty percent of the tenants in the high-rise rental stock are aged 35 years or less; again, mostly non-family households and families without children.

High-rise tenants therefore represent a broad cross-section of all types of households though non-family households and childless couples do predomi-

nate. In addition to the variety of household types and ages indicated here, the stock houses tenants with a broad range of other types of characteristics - including incomes. A later section of this report examines the affordability situation of Ontario tenants and identifies those experiencing difficulties in meeting their rent payments.



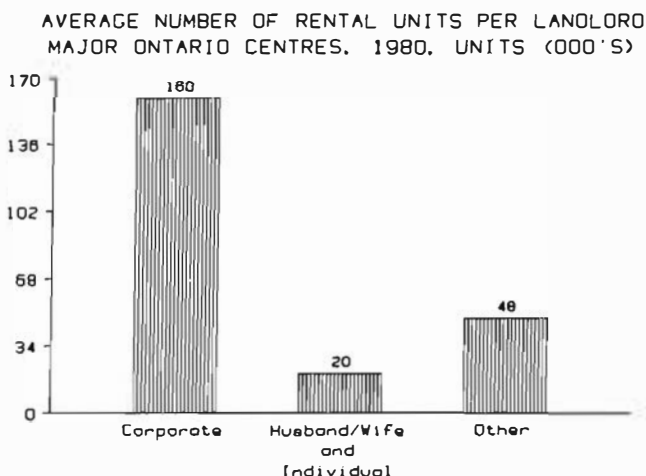
Source: Ministry of Municipal Affairs and Housing based on data from Teala Market Survey.

Just as the rental stock is occupied by a wide variety of tenants, so is the stock owned by a cross-section of landlords, though corporate landlords predominate in the high-rise stock.

An analysis of the ownership structure of a sample of rental apartment buildings in Ontario indicates that 37 percent of all the landlords identified were companies - but they owned 76 percent of the rental units in the sample.\*

Individuals and husbands and wives comprised 44 percent of all landlords. These were mostly small landlords, owning only 12 percent of the rental units in the sample.

The other landlord types include partnerships and buildings held in trust.

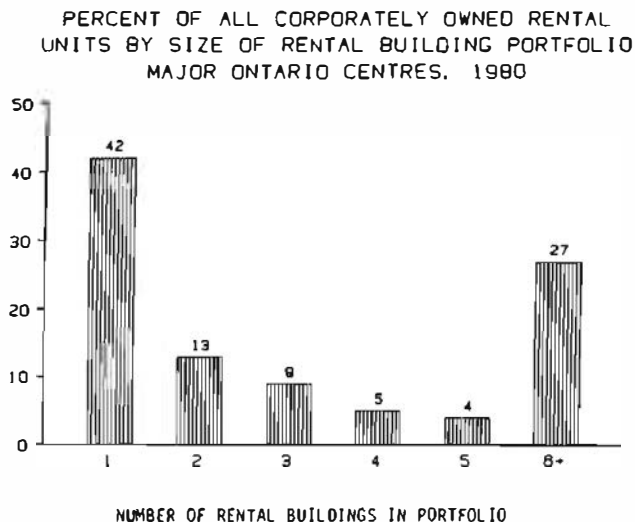


Source: Ministry of Municipal Affairs and Housing based on data from Teala Market Survey.

It is clear that the majority of the high-rise rental apartment stock is in the hands of corporate landlords. The average number of rental units in each of the corporate landlords' portfolios was 160 units. The average number of units held by individuals and husbands and wives was only 20 units and these include a number of portfolios with more than one building - there would be few high-rises in these portfolios.

For other types of landlords, the average size of the rental unit portfolio was 48 units, so there would be some high-rise buildings in these portfolios.

\* The analysis included rental buildings of six units or more in the seven regional municipalities encompassing the Toronto, Hamilton and Ottawa CMAs.



Source: Ministry of Municipal Affairs and Housing  
based on data from Teala Market Survey.

While it is clear that most of the high-rise rental stock is in the hands of corporate landlords, they are not all owned by the large real estate companies. More than half of the corporately-owned units were in the hands of companies with portfolios of only one or two buildings.\* Companies with portfolios of 6 or more rental buildings accounted for 27 per cent of the corporately-owned rental units.

To recapitulate, Ontario's high-rise rental apartment stock:

- Represents an important component of the total stock;
- Predominantly is located in the larger centres;
- Tends to be relatively new compared to other types of dwellings in the rental stock - in a sense, high-rise apartments are a comparatively new form of building technology;
- Provides accommodation for a variety of household types though the majority of high-rise tenants tend to be either non-family households (mostly one-person) or couples without children; and
- Predominantly is owned by corporate landlords though most of the stock appears to be in the hands of companies which own only a few buildings.

### WHAT IS CONSERVATION?

There are a myriad of terms which relate to the upkeep of buildings; common terms range from repairs and maintenance to conservation and restoration. As it is used in this study, 'conservation' relates to the preservation of a building such that it may be

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\* Some of these small corporate landlords may represent more than one company owned by the same principals, but with the evidence at hand, it seems likely that a large proportion of the high-rise rental stock is owned by companies which have interests in only a few properties.

safely used throughout its expected life span. Conservation measures thus are those which must be undertaken to prevent the premature decay or loss of a building (or any of its parts) and to replace major systems and modernize elements of the structure and components as required by the aging of the building.

Conservation and maintenance are interrelated in many respects. But, as the term is used in this paper, 'conservation' is directed more at maintaining components in a sound condition, arresting deterioration and, in some cases, upgrading to current standards. Maintenance, on the other hand, implies the on-going action of keeping components in good working order or meeting minimum standards. Conservation work on a high-rise building can be usefully regarded as preventive maintenance. Many of the types of conservation measures examined in this paper are analagous to preventive maintenance actions on an automobile such as oil changes, periodic steam cleaning or rust-proofing (as opposed to the more cosmetic car washes) and other repair measures which, if not undertaken at the appropriate time, may lead to more costly repairs later or a significant shortening of the expected life of the automobile.

Examples of the types of conservation needs identified in some of Ontario's high-rise rental apartment buildings include:

- Weather penetration - almost all high-rise buildings were found to experience some problems with regard to failure of roofs, walls or windows to provide effective weather protection. Such problems can lead to deterioration of the structure itself as well as to damage to interior living environments and excessive heat loss.
- Failing parking structures - this is one of the most common conservation problems identified both in the study and elsewhere. Many of the problems relate to the deterioration of various components of the structure due to the combined action of water and road salt, omission of adequate waterproofing and drainage and inadequate treatment of control and expansion joints.
- Replacement of building systems - upgrading or replacement of major systems such as electrical, heating, plumbing and ventilation are required in many buildings. In many cases, this is due to systems which are reaching the end of their useful life. In some cases, it is due to inadequate initial systems or changing requirements.

These problems and others are discussed in more detail in a later section of this study dealing with conservation needs and costs. In general, while the study found that most buildings have conservation needs that will require attention over the next two decades, conservation problems are not currently threatening the useful life of Ontario's high-rise rental apartment stock or contributing to immediate concerns for public safety.

## WHY HAVE CONSERVATION NEEDS ARISEN?

There is no single cause behind the variety of conservation needs that are found in high-rise buildings today. The extent of conservation needs depends upon a multitude of factors including the quality of the initial design of the building and its level of up-keep which themselves are the product of a complex interaction and compromise among architectural, engineering, planning and financial considerations as well as government regulations.

Most high-rise buildings in Ontario are in good repair. According to the 1981 Census of Canada, 85 percent of the province's high-rise stock was in need only of regular maintenance; 4 percent was reported to require major repair. Despite this, all buildings will require conservation actions over the next two decades just as automobiles require similar actions to ensure a longer ultimate life. There are, however, a number of factors which may increase the extent to which conservation measures must be undertaken:

- Inadequate initial design and construction - Buildings which are well designed and constructed, using appropriate materials and quality workmanship, generally have lower conservation costs than do poorly constructed buildings. If corners are cut by developers or contractors in a bid to lower costs, this will likely be reflected in higher conservation costs in later years. In some cases, architects, engineers and contractors may not be familiar with the best construction practises which may lead to poor design or construction and, in the long-run, to increased maintenance and conservation costs.

Also, low initial construction costs, which are actually encouraged by the financial approval process and the need to compete in today's competitive rental market, can often lead to higher operating costs in the long-term. In many new buildings, low capital costs rather than low life-cycle costs are the objective - this encourages the construction of buildings which may be cheaper to build but will be more costly to operate, maintain and conserve.

- Deficient inspection and review - Often, the inspectors representing the lenders or the municipality do not have either the time or the knowledge to inspect properly the work being undertaken. The construction of a large, complex apartment building requires broad skills which many building inspectors may not have. This, combined with the fact that inspectors often visit the construction site only infrequently, can lead to the possibility that the work may not meet the building code requirements or the basics of good construction. For much of the existing rental apartment stock, inspection was further complicated by the fact that until recently there was no common building code in Ontario.

- Lack of understanding by building maintenance personnel - In almost all cases, those responsible for maintaining rental buildings are not the people involved in its construction. Often, those charged with making maintenance decisions are administrators rather than construction professionals. As such, maintenance actions may be guided more by budget constraints than by the needs of the building. Also, the day-to-day building maintenance personnel - those who would recommend maintenance needs to the administrator - often do not appear to have sufficiently specialized skills to identify the problems which exist in a complex building with its many specialized systems.
- The process of rent review - Rent review was the most prevalent reason given by private sector landlords for restraint in building conservation. This is despite the fact that the types of conservation expenditures identified in the study as being necessary in the high-rise rental apartment stock can generally be passed on to tenants through the rent review process in the form of rent increases. Reasons cited by landlords for avoiding rent review include:
  - the tedious and difficult review process itself;
  - the general resistance of tenants to rent increases for actions which they do not readily perceive as beneficial to themselves;
  - the need to make repeated applications as additional costs arise; and
  - a general feeling among landlords that they will not be treated fairly by the review system.

While some landlords indicated that they were streamlining expenditures on conservation and maintenance items in order to keep costs within the rent review guideline, there is no visible evidence that rent review is affecting the useful life of the rental stock at this time or that the conservation problems identified in the study can be directly blamed on the rent review process. It appears that though rent review is a serious irritant to landlords, in the final analysis most of them are undertaking necessary conservation work and are passing the costs on through rent review. The rent review process in any case, is not the reason for the conservation needs.

Conservation needs are not a new issue, they can be expected with any type of major capital good. This is especially true with a relatively new technology such as that of high-rise apartment buildings of which few were built in Canada prior to the 1960's and in which there has been a substantial evolution in design and construction techniques in the past twenty years. Ontario is not alone in experiencing the types of conservation needs identified in this study, there is no one to blame - only a problem to be examined and solutions to be sought.

### WHY WORRY ABOUT CONSERVATION?

The existing housing stock is a valuable capital asset which is performing an essential service - the provision of relatively low-cost accommodation. In particular, the older stock provides housing accommodation at a cost (or rent) which is substantially below that of comparable newly-built accommodation. Because of this, the conservation of the existing housing stock has become an important issue - we simply cannot afford to replace the entire existing stock with new units. It is in everyone's interest to maintain the housing stock in a condition where it can continue to provide housing services for the foreseeable future. The alternative, allowing the stock to deteriorate to the point where it will have to be replaced, simply does not make sense from either an economic or a social point of view.

This is particularly true with the high-rise rental apartment stock where replacement costs are very much higher than the average values of most units in the older high-rise stock. The unit prices in the recent celebrated Cadillac-Fairview apartment "flip" provide a graphic illustration:

- The average apartment unit price in the initial sale from Cadillac-Fairview to Greymac Credit was \$24,700;
- For the final sale from Kilderkin Investments to the group of numbered companies that were reportedly owned by foreign investors stated to be from Saudi Arabia, the average apartment unit price was approximately \$45,000. This was the transaction about which there was subsequently considerable controversy and question (by the Morrison Inquiry, among others) as to whether the units were actually worth that price. The general conclusion was that they were not worth this stated price.

By comparison, the average cost of a standard new apartment unit built in Toronto at present is estimated to be in the \$55,000-\$60,000 range. The bulk of this cost (about 80 percent) is for construction-related activities, so the general range of total costs would be similar in other larger Ontario centres as well.

Projections of housing demand in Ontario indicate that there will be a demand for significant numbers of additional new rental apartments in the period between now and the end of the century. New apartment buildings will have to be built both to satisfy this net new demand as well as to replace those buildings lost to the rental stock through various means. Clearly, the replacement of a substantial portion of the existing high-rise rental apartment units in Ontario with new units built at substantially higher costs (and correspondingly higher rents) would have a significant



negative impact on tenants. This, plus the inefficiency of allowing an essential, low-cost capital asset to degenerate and be replaced with a high-cost capital asset, is the reason behind the importance of promoting conservation of the existing stock of high-rise rental apartment buildings.

## CONSERVATION NEEDS IN THE HIGH-RISE RENTAL APARTMENT STOCK

### WHAT CONSERVATION NEEDS HAVE BEEN IDENTIFIED?

The conservation needs identified in the high-rise rental apartment stock in Ontario can be separated into seven general areas:

- Weather protection;
- Structural integrity;
- Building systems;
- Parking structures;
- Occupant safety;
- Movement systems; and
- Equipment and fittings.

A brief description of the conservation needs identified under each of these headings is provided below. Readers who are interested in more details with regard to these items should refer to the detailed discussion in Volume 10 of the Study of Residential Intensification and Rental Housing Conservation which deals with "Future Conservation Requirements and Costs for High-Rise Apartments and Possible Impacts on Rents and Tenants" (pages 13-56).

The conservation needs and costs discussed here are based on an examination of five actual case study high-rise rental apartment buildings in the province as well as general observations of Ontario's high-rise rental apartment stock.

### Weather Protection

Roofs, walls and windows are the principal building components involved in keeping buildings weathertight; they control the movement of water, air and heat through the application of barriers and insulation. Where buildings fail in terms of weather protection, the failures are generally manifested as roof leaks, water penetration through masonry walls and water leaks and excessive drafts through windows. Almost all high-rise buildings of any age experience problems in some or all of these areas and it is extremely important that the problems be controlled since unchecked water penetration can have disastrous effects on internal living environments as well as contributing to the deterioration of structures and excessive heat loss.

Typical conservation needs for high-rise apartment buildings over the next twenty years under the general heading of weather protection include the replacement and maintenance of roofs, periodic window caulking, the addition of storm windows and periodic repair work on walls, including, in severe situations, covering the existing walls with protective new surfacing.

### Structural Integrity

When structures are properly constructed in compliance with building codes and they are adequately protected from weather and chemical attack, there are generally few problems with structural integrity. With the exception of the parking structures (covered below) and some significant items of repair to shelf angles, masonry and balconies, very few structural deficiencies are evident in Ontario's high-rise rental apartment stock and little conservation work appears necessary over the next two decades.

### Building Systems

There are four major categories of high-rise apartment building systems: electrical, heating, plumbing and ventilation systems.

Electrical system conservation requirements in high-rise buildings centre around three major issues: changes in electrical codes, increased user needs and the use of aluminum wiring in some buildings. Electrical services and lighting systems in buildings constructed prior to 1970 need upgrading to meet current code requirements and to accommodate the increased use of home portable appliances such as air conditioners. Many buildings are experiencing overloading which could lead to burnout of equipment and fire hazards. Aluminum wiring was widely used during the period of copper shortage from 1965 to 1975; in many cases, this has caused problems making replacement with copper wiring necessary.

Heating conservation needs will depend on whether the building is heated with water or electricity. Boiler replacement will be a necessary major expenditure in many water-heated buildings. Also, the hot water heaters in older buildings generally need upgrading. Increased emphasis on energy conservation would lead to other improvements; however, these have not been examined in this study since they are not strictly building conservation measures.

Plumbing is a problem in many older buildings where replacement of galvanized piping and installation of valves is required if quality and flow of water are not to deteriorate. These conservation measures can be expensive since they require the opening up of existing walls and subsequent repairs.

Ventilation in older buildings is generally poor - it is often not effective in controlling cooking odours and is usually energy inefficient. Replacement of worn out equipment and installation of modern exhaust systems is required in many cases.

### Parking Structures

Extensive conservation actions are required in almost all existing high-rise apartment parking garages. The problems are apparent in many relatively new structures as well as in most older buildings. The major problem areas include deterioration of suspended slabs, expansion joints, roof slabs and entrance ramps.

The deterioration of suspended reinforced concrete slabs in parking garages is a direct result of the combination of the use of salt on winter streets and the fact that, in the past, suspended slabs were not provided with protective sealers or coatings. The main problem is that salt-laden water can cause serious corrosion of the reinforcing bars in the concrete slab. If garage floors are well drained and regularly flushed with clean water during winter months, it is probable that little damage would be done; however, this is rarely the case. Most garage slabs are presently in need of repairs which involve the removal and replacement of the deteriorated concrete, reinforcement and the installation of an impervious membrane and traffic-bearing surfacing over the repaired slab.

Expansion joints in parking garages have been a major source of problems. Again, the problems begin with water leaks which, if not remedied, can develop into major structural troubles. Once repaired, the problem often tends to reoccur.

Garage roof leaks are also a significant contributor to high conservation costs. The reasons for roof leaks vary, examples include inadequate or non-existent roof membranes, improper installation of light standards, plant boxes or traffic decks on the garage roof and, often, overloading of the roof slab with landscaping or other material. Garage roof leaks must be repaired promptly since they can affect the structure itself. Often, the repairs require the removal of all surface landscaping material and disruption to existing routes for people or vehicles.

Garage entrance ramps are usually provided with heating devices to keep them clear of snow and ice in winter. These devices are prone to failure because of thermal expansion as they operate. Repair and replacement costs can be very high since the heating devices are generally imbedded in the concrete ramp itself.

### Occupant Safety

Conservation requirements with regard to building elements that relate to occupant safety can be significant. A large proportion of the stock of high-rise buildings was constructed at a time when codes were less stringent and generally they are not required to be retrofitted to comply with current bylaws, though in future some retrofitting may become mandatory.

The main areas of deficiency with regard to occupant safety are the provision of an emergency voice communications system (introduced in the National Building Code in 1977), upgrading of fire alarm systems and emergency lighting, fire compartmentalization, smoke control, the provision of firemans' elevators and emergency power provisions such as a standby generator.

### Movement Systems

In general, movement systems in high-rise apartment buildings are in good condition. Elevators were normally of good quality when they were installed and regular maintenance is required by law. Despite this, it is expected that some older elevators will have to be retrofitted with either new cabs or control systems or both. While vandalism to elevators is a major concern, this is an ongoing maintenance item.

As codes require it, elevators will have to be retrofitted to serve firemans' needs and voice communication systems will have to be installed. Expenditures for these items are covered under "Occupant Safety".

### Equipment and Fittings

There are many small items included under equipment and fittings, including kitchen countertops, cabinet doors and drawers, closet doors, bathroom tiles and plaster repairs. These are items which frequently require conservation work to bring them up to standard and also to prevent damage to other parts of the building, e.g. water leakage around ceramic bathroom tiles.

### WHAT WILL BE THE COST OF UNDERTAKING THE CONSERVATION ACTIONS?

As part of the research for this study, five case study high-rise apartment buildings were selected to demonstrate the estimated

cost of the conservation work that might be required by Ontario's high-rise rental apartment stock over the next twenty years. The locations of the buildings will remain anonymous, however, a brief description of each is provided below:

- Case Study Building #1 - a public sector building of 15 storeys constructed in 1958 with a reinforced concrete structure, walls of solid masonry on exposed floor slabs and surface parking;
- Case Study Building #2 - a private sector building of 9 storeys constructed in 1971 with a reinforced concrete structure, cavity wall construction on exposed floor slabs and one level of underground parking;
- Case Study Building #3 - a public sector building of 18 storeys constructed in 1969 with a reinforced concrete structure, cavity wall construction on shelf angles and one level of underground parking;
- Case Study Building #4 - a private sector building of 11 storeys constructed in 1955 with a concrete encased steel structure with steel joists, walls of solid masonry on exposed floor slabs and enclosed surface parking; and
- Case Study Building #5 - a private non-profit building of 22 storeys constructed in 1968 with a concrete column and slab structure, walls of solid masonry on exposed floor slabs and one level of underground parking.

The estimated conservation costs for these five case study buildings are summarized below. The estimates do not include maintenance items such as painting, cleaning, snow removal or appliance replacement or any ongoing work that is being undertaken at present. The costs cover only those additional conservation expenditures over the next twenty years needed to preserve the life of the building and maintain adequate living standards within.

ESTIMATED COSTS OF CONSERVATION WORK  
CASE STUDY BUILDINGS, 1982-2001  
(1982 DOLLARS PER DWELLING UNIT)

Conservation Work	Case Study Buildings				
	#1	#2	#3	#4	#5
Weather Protection	3,305	2,125	1,205	3,320	3,445
Structural Integrity	-	300	300	400	400
Building Systems	2,275	1,905	1,195	4,395	1,660
Parking Structures	-	590	85	170	990
Occupant Safety and Movement Systems	300	295	370	485	305
Equipment and Fitments	1,350	-	450	750	1,125
Total	7,230	5,215	3,605	9,520	7,925

Source: Study of Residential Intensification and Rental Housing Conservation, Part 4.2, "Future Conservation Requirements and Costs for High-Rise Apartments and the Possible Impact on Rents and Tenants", March, 1983, pages 28-56. Some revisions were made to the estimates to eliminate on-going costs currently being incurred by the case study buildings.

The conservation actions necessary over the next twenty years in each of the five case study buildings will require substantial expenditures, but, to put the costs in perspective, they are only a fraction of the replacement costs of the buildings.

All of the work will not occur at the same time: on average, the expected distribution of the conservation costs is estimated to be roughly 40 percent in the first five years and 20 percent in each of the following three five year periods - the actual distribution is, of course, different for each building depending on the nature of the conservation work to be undertaken.

#### WHAT WILL BE THE IMPACT OF THESE CONSERVATION COSTS ON RENTS?

Landlords are aware that most buildings will require expenditures on conservation work during their life span. It seems doubtful, however, that most landlords are aware of the full range of conservation needs identified in the consultants' report and their implications for the useful life of the building. Normally, financial planning for the building would have allowed for contingency expenses such as conservation work either through the build-up of a reserve fund or through expectations of future rent increases which would offset the increases in costs.

In a situation where rental markets are balanced and private rents are market-determined, such costs would need to be financed directly out of a reserve fund or out of profits since the rents would generally be as high as the market would bear and extra costs could not be passed through to tenants without risking increased vacancies. It seems likely that, if they are fully aware of the conservation needs and their implications, most rational landlords would still undertake the necessary conservation work because it would prolong the useful life of the building and, hence, would be an element in future profit-maximization. However, such a balanced market scenario appears out of place in most Ontario rental markets today since:

- Rents are not entirely market-determined - many landlords could pass through significant rent increases if the rent review process allowed it; and
- The rental market is tight - many tenants would have difficulty finding alternative affordable rental housing.

Rent review allows conservation costs to be passed through into rent increases, but only as costs are incurred. To obtain the cost pass-through in the form of higher rents, landlords must undergo the rent review process for each year in which costs occur; landlords cannot put forward a comprehensive program for future conservation actions and have it all approved at one time.

Also, the rent review process does not award an immediate pass-through of all costs into correspondingly increased rents. Depending on the life expectancy of the conservation work, amortization schedules are applied so as to spread the compensating rent revenue across the life of the improvement. This can be a complicated process, especially for a wide range of items such as the conservation actions necessary for the case study buildings where the life expectancy of each specific measure varies from an estimated five years to forty years. The overall average life expectancy of the types of conservation actions described in this paper is estimated to be roughly twenty years. In determining the pass-through of the conservation costs into rent increases, both the amortized costs and the necessary financing costs are taken into account by the rent review process.

For public housing, there will, of course, be no increases in rents as a consequence of conservation work since rents in these projects are geared to tenant incomes and not to costs.

For private buildings, rent increases will vary significantly depending on the amount and timing of the conservation work required. The initial level of rents in the buildings will have an impact on the percentage increase in rents since a given volume of costs would represent a larger percentage of low rents than they would of high rents. The following table presents the percent increase in rents which would be necessary to pass-through the conservation costs on the private case study buildings assuming that a uniform twenty year amortization period is adopted for the rent review calculations. It is also assumed that the conservation work on the non-profit building would be financed through rent increases as well.

1982 RENTS AND ESTIMATED PERCENT INCREASE IN RENTS  
DUE TO CONSERVATION COST PASS-THROUGHS  
CASE STUDY BUILDINGS, 1982-2002

Average 1982 Rents (Dollars)	Private Sector Buildings		Non-Profit Building
	Case Study # 2	Case Study #4	Case Study #5
Bachelor	310	300	120
One-Bedroom	340	382	170
Two-Bedroom	415	650	-
Three-Bedroom	460	-	-
Estimated Percent Increase in Rents (Compared to 1982) To Offset Conservation Costs			
1982-1987	8.3	15.5	28.9
1987-1992	9.9	21.7	43.3
1992-1997	13.2	24.8	57.7
1997-2002	16.5	31.0	72.1

Source: Study of Residential Intensification and Rental Housing Conservation, Part 4.2, "Future Conservation Requirements and Costs for High-Rise Apartments and the Possible Impact on Rents and Tenants", March, 1983, pages 177-185. The rent increase figures presented in the study have been revised to reflect only additional conservation work not currently being undertaken by landlords. For the purposes of the calculation, it is assumed the work is fully financed at a mortgage interest rate of 13 percent over an amortization period of 20 years.

Assuming that the conservation costs are amortized over a twenty year period for the purposes of rent review, by 1987, the total rent increase resulting only from conservation work undertaken in



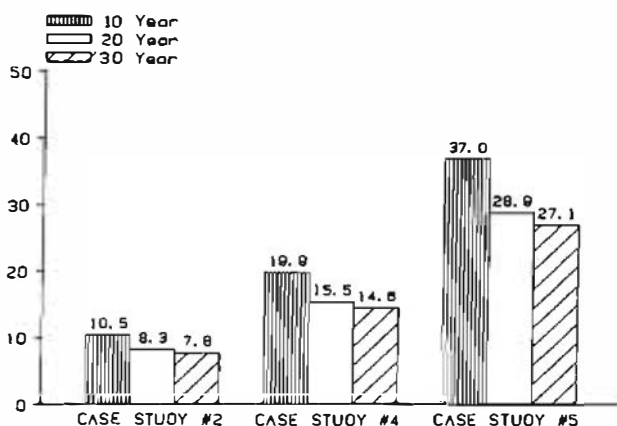
the five year period 1982-1987 would be 8.3 percent and 15.5 percent in the two private sector buildings. For the non-profit building, by 1987, the rent increases resulting from the required conservation work in the 1982-1987 period would be 28.9 percent - this larger percent increase is due mainly to the very low initial rents in the non-profit building.

As the conservation costs continue to accumulate, the resulting rent increases will become larger. By the end of the twenty year period under consideration, it is estimated that the rents in the two private sector buildings would be 16.5 percent and 31.0 percent, respectively, higher than their initial 1982 rents - solely due to the pass-through of conservation costs. In the non-profit building, the rents in 2002 are estimated to be 72.1 percent higher because of the accumulated conservation cost pass-throughs.

To put these estimated rent increases into perspective, it must be recognized that, in many cases, these increases would likely only go part way towards offsetting the amount by which rent review has held rents down. In the hypothetical circumstance where, since 1976, a landlord had accepted the normal annual rent increase allowed when (in the absence of rent review) annual increases in the range of 10 percent (approximately the average rate of inflation for the period) might have been expected, the magnitude of the differential in rent would have been over 20 percent in total by 1983. Clearly, the pass-through of the estimated conservation costs would bring rents back closer to the level where they might have been in the absence of rent review.

The estimated rent increases relate only to the increases necessary to cover the conservation costs. There can be little doubt that, with inflation, other costs will increase as well so the actual rent increases in each case will be larger - the conservation costs will likely represent only a portion, albeit a significant one, of larger rent increases. No attempt was made to estimate increases in these other costs since the study was interested only in the effect of conservation costs on rents.

ESTIMATED PERCENT RENT INCREASES 1982-1987  
VARIOUS AMORTIZATION PERIODS  
CASE STUDY BUILDINGS



Source: Estimates by Clayton Research Associates.

The estimated future rent increases resulting from the pass-through of conservation costs is critically dependant on the amortization period selected for the conservation work; i.e., the expected life of the work. The shorter the amortization period selected, the larger the immediate rent increase. For example, for conservation costs incurred in the 1982-1987 period, the pass-through rent increases in Case Study Building #2 vary

from 7.8 percent for a 30 year amortization period to 10.5 percent for a 10 year amortization period.

As was noted earlier, for the purpose of this paper, the 20 year amortization period was selected to demonstrate the estimated rent increases resulting from all of the conservation costs because this appears to be the rough average life expectancy of the necessary conservation work for these buildings.

### AVAILABLE OPTIONS

#### WILL LANDLORDS UNDERTAKE THE NECESSARY CONSERVATION WORK?

The question of whether landlords will undertake the conservation work is of key importance since failure to do so will result in the deterioration of the existing rental stock and its ultimate necessary replacement with new stock built with substantially higher costs - and, of course, resulting higher rents.

For buildings exempt from rent review, it seems likely that, if aware of the conservation needs, the landlord would undertake the necessary work unless the costs are too exorbitant or the building is in an area where redevelopment would be profitable. This would seem rational since, as a result of the work, the revenue-producing life of the building would be extended. The costs would be financed out of a reserve fund established for just such a purpose, from profits or through increased borrowings.

For buildings under rent review, the landlord's actions could be different from the free market situation. In key informant interviews, many landlords indicated that they have been postponing or streamlining expenditures on items such as maintenance and building conservation because of the rent review process. While landlords appear to be aware that rent review allows such costs to be passed through to tenants in higher rents, they are apparently reluctant to do so because of the difficult and time-consuming nature of the process, the ill-will created with tenants and a general feeling that the landlord will not be treated fairly by the process.

Investigation is required to determine the impact of rent review guidelines on maintenance and preventive maintenance practices. General comments from property standards officers, tenants and some landlords indicate that extraordinary and preventive maintenance activities appear generally to have been streamlined so that annual operating costs could be maintained within the rent review guideline. For example, roof maintenance procedures may be undertaken only when necessary rather than on a regular annual basis. Consequently, a significant majority of landlords may not apply for rent review since their cost increases are maintained within the allowable ceiling. However, the streamlining of certain maintenance practices could accelerate the need for conservation measures.

No instances were found where the expected life span of the building was currently under threat because conservation work was being neglected. It seems clear that essential work is actually being undertaken despite any difficulties landlords are having with the rent review process. In most cases, there appear to be few other options open to landlords:

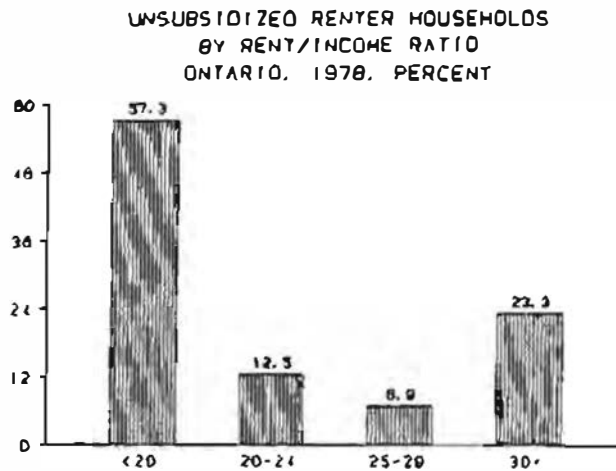
- Failure to undertake the necessary conservation work would result in the deterioration of the building and an ultimate loss of revenue to the landlord.
- Undertaking the substantial amount of conservation work and bearing the costs themselves by not applying for a rent increase through the rent review process would not normally be a rational profit-maximization decision on the part of landlords.
- Selling to another landlord has, until recently, been a popular method of realizing an increase in the value of rental property since higher financing costs could be passed along to tenants through higher rents. However, in terms of undertaking the necessary conservation work, a new landlord's profit-maximizing decision would likely be to do the work necessary to extend the life of the building and to pass the costs on through rent review.
- Conversion of the building to condominium tenure or apartment-hotels would be a viable solution for some landlords but this is, at best, a limited sized market and severe limitations have been imposed on this activity in many municipalities.
- Demolition is likely to be a practical option only in a very limited number of cases where the building is very rundown, excessively costly to repair or where the site of the property (less the demolition costs) is worth more than the present value of the stream of future rent revenue from the building.

It seems likely that most landlords of rental buildings subject to rent review will ultimately either undertake essential conservation work and use the review system to obtain justifiable rent increases or sell to someone who will. This is borne out by the study finding that there is no visible evidence that rent review is affecting the immediate useful life of the rental stock.

Over the past three years, about 70 percent of the units undergoing rent review included capital improvements of the type implied by conservation work. Generally, the rent increases granted through rent review for capital improvements have been small; for units applying for increases through rent review, the average annual rent increase as a result of capital improvements was only 2-3 percent for the 1980-1983 period.

#### CAN TENANTS AFFORD THE RESULTING RENT INCREASES?

Complete information on tenants and their ability to afford their accommodation is not available, however, a number of broad conclusions can be drawn from available data:



Source: J. Miron, "The Affordability of Rental Housing in Ontario: Empirical Findings", as quoted in *The Impact of Rent Review on Rental Housing in Ontario: A Staff Research Report*, Ministry of Municipal Affairs and Housing, 1982.

Incidence of Tenants Paying More Than 30  
Percent of Income in Rent  
Unsubsidized Renter Households, Ontario, 1978

	Percent
<u>Age of Head</u>	
Under 25	25.9
25-54	17.4
55-64	n.a.
65 and over	45.7
<u>Household Type</u>	
One Person	36.4
Single Parent	51.0
Others	13.0
All Unsubsidized Renter Households	21.3

Source: J. Miron, "The Affordability of Rental Housing in Ontario: Empirical Findings", as quoted in *The Impact of Rent Review on Rental Housing in Ontario: A Staff Research Report*, Ministry of Municipal Affairs and Housing, 1982.

- While some tenants (and would-be tenants) face serious affordability problems, the vast majority of tenants are able to afford their current rental accommodation. Information from the 1978 Statistics Canada Household Income Facilities and Equipment (HIFE) microdata file on tenants not in receipt of direct subsidies indicates that most can afford their accommodation. Comparing 1978 rent with 1977 income, over three-quarters of these tenants paid less than 30 percent of their income for rent.\* Nonetheless, it is clear that a significant number of tenants pay more rent than they can afford.

- All types of tenants have affordability problems. Information on unsubsidized renters from the HIFE indicate that some tenants of all age groups and household types pay more than 30 percent of their income in rent, though clearly some groups, especially the elderly and single-parent families, have much higher incidences of households with affordability problems than others.

\* The 1981 Census of Canada showed a somewhat higher figure for those Ontario tenants paying in excess of 30 percent of income in rent (28.8 percent of all renter households). One reason for the difference is that the HIFE data relates only to unsubsidized households. Another is that both data sets use current year's rent and previous year's income which tends to overstate the problem households - this is especially true for the Census since average earnings increased about 12 percent between 1980 and 1981 compared to about 6 percent between 1977 and 1978 for the HIFE data.

- Some tenants with apparent affordability problems do not appear to be in need. Despite the fact that they devote an excessive proportion of their income to rent, some tenants apparently choose to live in more expensive or large accommodation. Complete information is not available on this subject, however, it is clear that low income does not necessarily indicate 'need' - many households such as some comprised of elderly people with low incomes but large assets choose accommodation which results in their devoting more than 30 percent of their income to rent. These households do not necessarily have an affordability problem.

Clearly, while there may be debate about the appropriate affordability threshold for tenants (a rent/income ratio of 30 percent is used here for illustrative purposes only), there can be little doubt that a significant proportion of households in private rental housing have affordability problems and that this number would be larger if rents increased.

So, while it appears that most tenants would be able to afford rent increases as a result of the pass-through of conservation costs into rents, there would be some who could not afford it and others for whom higher rents would result in a worsening of affordability problems which already exist.

The impact of the expected conservation cost pass-throughs on rents in the case study buildings over the 1982-1987 period was estimated in an earlier section to vary from 8.3 percent to 15.5 percent for the two private sector buildings and 28.9 percent for the non-profit building. There can be little doubt that rent increases of this magnitude (plus, perhaps, additional financing or operating cost-related rent increases) would have a significant impact on some tenants.

Little empirical work has been done on the impact which such rent increases could have on tenants. However, in The Impact of Rent Review in Ontario: A Staff Research Report from the Ministry of Municipal Affairs and Housing, estimates were prepared on the sensitivity of affordability to changes in rents relative to income.

SENSITIVITY OF AFFORDABILITY TO CHANGES  
IN RENTS RELATIVE TO INCOME  
UNSUBSIDIZED RENTERS, ONTARIO, 1978

Percent Change in Rent Relative to Income	Percent of Households at Rent/Income Ratio of 30% or more
10% Higher	27.1
5% Higher	25.3
No Change	23.3
5% Lower	21.9
10% Lower	20.4

Source: J. Miron, "The Affordability of Rental Housing in Ontario: Empirical Findings", as quoted in The Impact of Rent Review on Rental Housing in Ontario: A Staff Research Report, Ministry of Municipal Affairs and Housing, 1982.

Despite the necessary qualifications, the estimates provide a useful indicator of the likely magnitude of additional tenant affordability problems which would result from a large increase in rents such as that related to conservation cost pass-throughs.\* To explain, in 1978, an estimated 23.3 percent of tenants paid in excess of 30 percent of their income in rent; if rents increased 10 percent more than incomes, the proportion paying in excess of 30 percent would rise to over 27 percent.

If it is assumed that, except for the conservation cost pass-through, rents and incomes rise by the same amount, it is clear a significant number of tenants would be in a more disadvantaged situation than they were previously. With estimated rent increases in the private sector case study buildings of 8.3 to 15.5 percent due to the conservation cost pass-throughs during 1982-1987, the increase in the proportion of tenants paying more than 30 percent of their incomes in rent could increase to about 26-30 percent.

It must be stressed that these figures can only be regarded as a very rough indicator of the magnitude of the increase in tenants paying in excess of 30 percent of their income in rent if the conservation cost pass-throughs were reflected in rent increases:

- The affordability figures are based on 1978 estimates which could be substantially different today;
- Not all landlords may undertake all of the conservation measures indicated here either through ignorance or differing priorities;
- Since the conservation costs will be spread over the five-year 1982-1987 period, the analysis assumes that over the period, increases in average incomes and rent increases due to factors other than conservation costs will be equal; and
- Not all buildings will face the same percent increase in rents as a result of the conservation costs. The dramatic effect of the conservation costs on rents in the non-profit building, for example, would cause much greater difficulties for tenants than the estimated increases for the tenants in the private buildings.

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\* Qualifications include the fact that the data relates to 1978 and that there are serious questions about both the appropriate threshold for determining those with affordability problems and whether all those with rent/income ratios in excess of the threshold are in fact experiencing problems.

Despite these data problems, it is clear that the increase in rents resulting from the pass-through of conservation costs will result in an increase in the number of tenants with affordability problems. The magnitude of the increase may be open to question but there is little doubt it will be significant.

The proportions of tenants with excessive rent/income ratios as a result of the expected conservation cost pass-throughs in the years beyond 1987 are even more difficult to assess. If average rent increases in the intervening years keep pace with or exceed income increases, the proportion of tenants paying an excessive amount of their income in rent would rise again. If, however, rent increases in the interim lag income increases, the proportion of tenants with affordability problems will decline in the interim, thus offsetting at least some (if not all) of the future conservation cost-related rent increases.

#### WHAT ARE THE OPTIONS FOR TENANTS AND GOVERNMENT IN DEALING WITH THE IMPACT OF CONSERVATION COSTS ON AFFORDABILITY?

The preceding discussion indicated that the majority of tenants would be able to afford the rent increases likely to occur as a result of the pass-through of conservation costs. However, this fact should not cloud the issue that such rent increases will expand the size of the group with affordability problems and also will increase the severity of the difficulties for the 20-30 percent of tenants who already are experiencing these problems. For these tenants, the difficulties caused by the rent increases are real and their options in dealing with them are limited:

- Moving to alternative accommodation is one option; however, rental markets are tight at present - especially in low-cost accommodation. There are unlikely to be many affordable alternatives on the private rental market.
- Doubling up with other tenants may be a viable option for some; however, this could lead to overcrowding depending on family circumstances.
- Applying for subsidized housing would be an option for some tenants; however, unless their need is extreme, there is unlikely to be accommodation immediately available - waiting lists for subsidized housing are very long. Also, some needy tenants (e.g., non-elderly single persons) are not eligible for subsidized housing.
- For many, it would appear that the final option of doing nothing (i.e., staying on and paying the higher rent), will be the option selected; unfortunately, in many of



these hardship cases, "doing nothing" means reallocating finances from other necessities into housing expenditures.

Government options in dealing with tenant affordability problems caused by conservation costs are also limited. There appear to be three major options:

- Provide subsidies to landlords such that these conservation costs would not be passed through to tenants in the form of rent increases;
- Restrict allowable rent increases to equal or below the rate of inflation or income growth so rents would not increase faster than incomes; or
- Expand the volume of assisted housing and the target groups for assisted housing such that all needy tenants would be able to obtain the assistance they require.

The first option, that of keeping rents low by providing subsidies to landlords for conservation work would be extremely costly, administratively complex and very inefficient in terms of targeting government assistance to those in need. The majority of Ontario tenants do not require assistance but would nonetheless obtain it at very substantial government expense.

The second option, restricting rent increases to levels that tenants can afford, suffers basically from the same problems as the first - with the major difference that the costs would be borne by landlords rather than the government. Inflation or tenant income growth have no bearing on the need to undertake conservation work; restricting rent increases to such measures would discourage landlords from undertaking the conservation work thus leading to the deterioration of the quality of the rental stock. It would also have the effect of further discouraging new rental investment since the onerous (in the view of landlords at least) rent review provisions would be altered further to the disadvantage of landlords.

The third option, that of expanding the assistance available to needy tenants clearly appears to be the most sensible long-term option available, but it would also be very expensive. Ideally, such an initiative would not be targeted simply at tenants who were disadvantaged by rent increases due to conservation costs, but would be part of a comprehensive program targeted at all needy tenants. Such a program would likely require a greater commitment of funds than governments have been willing to devote to the problem in the past plus a recognition that the current target groups for government housing assistance do not cover all needy groups. A program to assist needy tenants could be structured in a number of different ways including direct government provision of low-cost

housing, subsidies through non-profit or co-operative housing groups or shelter allowances. While it is beyond the scope of this report to recommend which type of program would be most effective, it is to be hoped (and expected) that the program would be:

- Efficient - directing assistance only to those who are in need;
- Equitable - including in the target groups tenants such as low-income, non-elderly single people who are not currently eligible for housing assistance and providing sufficient funds such that all those in the target groups receive assistance; and
- Integrated - ensuring that assisted tenants are integrated into the community and not concentrated in low-income housing ghettos.

#### OTHER ISSUES

Whatever approach the government selects in terms of protecting tenants with affordability problems from rent increases as a result of conservation work on private rental buildings, the study has raised other conservation-related issues which the government should address:

- Conservation costs for government-owned high-rise rental apartment buildings will put demands on government resources. The study found that conservation actions were underway on the public sector case study buildings so housing authorities appear to be budgeting for such outlays. However, future levels of conservation expenditure are likely to be higher than today's.
- Some provision for further assistance to non-government groups in the assisted housing area (such as non-profit housing) may be required to offset necessary conservation costs if the rents in these buildings are to remain affordable.
- The study found evidence of considerable reluctance on the part of private landlords to use the rent review process to pass on legitimate costs in the operation of their buildings. There is doubt whether this is actually resulting in postponement of essential conservation work, however, this is an issue which the current Commission of Inquiry into Residential Tenancies should be examining.

- A contributing factor behind the lack of action on some of the conservation needs in some private high-rise rental apartment buildings appears to be a lack of knowledge on the part of the personnel charged with the responsibility for maintenance and conservation work. A provincially-sponsored building conservation training program could assist in educating these officials in diagnosing the problems and understanding the ramifications of lack of attention to them.